

2012

# Identifying Indicia of Extortion in Patent Troll Cases: Eon-Net LP v. Flagstar Bancorp (2011 U.S. App. Lexis 15650) (Fed. Cir. 2011)

Lucas Hjelle

Follow this and additional works at: <http://open.mitchellhamline.edu/cybaris>

## Recommended Citation

Hjelle, Lucas (2012) "Identifying Indicia of Extortion in Patent Troll Cases: Eon-Net LP v. Flagstar Bancorp (2011 U.S. App. Lexis 15650) (Fed. Cir. 2011)," *Cybaris®*: Vol. 3 : Iss. 2 , Article 1.

Available at: <http://open.mitchellhamline.edu/cybaris/vol3/iss2/1>

This Note is brought to you for free and open access by the Law Reviews and Journals at Mitchell Hamline Open Access. It has been accepted for inclusion in Cybaris® by an authorized administrator of Mitchell Hamline Open Access. For more information, please contact [sean.felhofer@mitchellhamline.edu](mailto:sean.felhofer@mitchellhamline.edu).

© Mitchell Hamline School of Law

CASE NOTE: IDENTIFYING INDICIA OF EXTORTION IN PATENT TROLL  
CASES: EON-NET LP V. FLAGSTAR BANCORP (2011 U.S. APP. LEXIS  
15650) (FED. CIR. 2011).

Lucas Hjelle<sup>†</sup>

I. INTRODUCTION .....	135
A. <i>Trolling for Definition</i> .....	135
B. <i>The Case Against the NPE</i> .....	137
C. <i>The Case for the NPE</i> .....	138
D. <i>The Eon-Net NPE</i> .....	138
II. HISTORY .....	139
III. THE EON-NET V. FLAGSTAR DECISION .....	141
A. <i>Claim Construction</i> .....	141
B. <i>§ 285 Sanctions</i> .....	143
1. <i>Litigation Misconduct</i> .....	143
2. <i>Objectively Baseless Litigation in Bad Faith</i> .....	145
C. <i>Rule 11 Sanctions</i> .....	147
IV. EON-NET ANALYSIS .....	148
A. <i>Reasonable Pre-Suit Investigation</i> .....	149

---

<sup>†</sup> Lucas Hjelle J.D. Candidate 2012, William Mitchell College of Law; B.S. Electrical and Computer Engineering, Cornell University, May 2001. The author would like to dedicate this article to his wonderful wife, whose indefatigable patience and support made this article (and law school) possible. The author would also like to thank editor Dan Bruzzone, Editor-in-Chief Brian Bender, and the Cybaris® staff for their hard work on this article, and in making Cybaris® a success. Lastly, the author would like to thank Professor Ken Port for his invigorating candor, sagacious insight, and interminable sense of humor.

<i>B. Destruction of Evidence</i> .....	150
<i>C. Offensive Litigation Practices</i> .....	150
<i>D. Indicia of Extortion</i> .....	151
V. CURTAILING THE NPE .....	151
<i>A. Three-Pronged Attack</i> .....	151
1. <i>Sanctions after Eon-Net</i> .....	152
2. <i>Injunctions After eBay v. MercExchange</i> .....	153
3. <i>Leahy-Smith America Invents Act</i> .....	156
<i>B. Analysis of Attack on NPEs</i> .....	157
VI. CONCLUSION.....	159

“Or say 'tis not your seal, nor your invention”<sup>1</sup>

## I. INTRODUCTION

A “troll” is defined as “a dwarf or giant in Scandinavian folklore inhabiting caves or hills.”<sup>2</sup> The American Folktale “The Three Billy Goats Gruff” “includes one of the stock figures of the genre, a troll who exacts a toll from all those who seek to pass.”<sup>3</sup> In this sense, a “troll” may form an appropriate simile: like bridge trolls, the moniker “patent troll” may appropriately characterize any entity who seeks to exact a toll in exchange for using a patent created by a third party. Like many things pithy and memorable, this is an oversimplification: unlike a troll that charges a toll for using a bridge it neither built nor owns, a patent troll charges a toll for using products that the patent troll didn’t invent, has no intention of producing, or both.<sup>4</sup>

### A. *Trolling for Definition*

Nolo defines “patent troll” as a “[d]isparaging term for someone who sues for patent infringement but who does not make or sell any product using the patented technology.”<sup>5</sup> Various sources define the term more colloquially: “firms that treat patents as lottery tickets and file expensive, time-consuming lawsuits against companies that have supposedly infringed them;”<sup>6</sup> or companies that “nos[e] around patent systems and buy[] up intellectual property, often of questionable quality, and us[e] it to extort money from genuinely innovative companies by threatening protracted and expensive legal action.”<sup>7</sup>

<sup>1</sup> WILLIAM SHAKESPEARE, TWELFTH NIGHT act 5, sc. 1.

<sup>2</sup> *Troll*, MERRIAM-WEBSTER: AN ENCYCLOPEDIA BRITANNICA COMPANY, <http://www.merriam-webster.com/dictionary/troll> (last visited Feb. 21, 2012). Merriam Webster’s etymology of “troll” includes “Norwegian *troll* & Dan *trolde*, from Old Norse *troll* giant, demon; probably akin to Middle High German *trolle* lout.” *Id.*

<sup>3</sup> LINDA S. WATTS, ENCYCLOPEDIA OF AMERICAN FOLKLORE 383 (2007).

<sup>4</sup> MATTHEW D. ASBELL, LANNING G. BRYER & SCOTT J. LEBSON, INTELLECTUAL PROPERTY STRATEGIES FOR THE 21ST CENTURY CORPORATION: A SHIFT IN STRATEGIC AND FINANCIAL MANAGEMENT 144 (2011).

<sup>5</sup> NOLO’S PLAIN-ENGLISH LAW DICTIONARY, <http://www.nolo.com/dictionary/patent-troll-term.html> (last visited Feb. 21, 2012). At the time of this writing, Black’s Law Dictionary did not contain a definition for “patent troll.”

<sup>6</sup> *Why America’s Patent System Needs to be Reformed, and How to do it*, THE ECONOMIST, Aug. 20, 2011, available at <http://www.economist.com/node/21526370?fsrc=scn/tw/te/ar/patentmedicine>.

<sup>7</sup> Tim Hartford, *Taming the Patent Troll*, FT MAGAZINE (Aug. 19, 2011), <http://www.ft.com/cms/s/2/3246d5b4-c870-11e0-833c-00144feabdc0.html#ixzz1ViUH4xXh>.

Peter Detkin is generally accepted to have coined the phrase “patent troll.”<sup>8</sup> While assistant general counsel of Intel Corporation, Detkin initially labeled patent infringement plaintiffs “patent extortionists.”<sup>9</sup> One such plaintiff responded by suing for libel, and Detkin responded by coining the term “patent troll.”<sup>10</sup> Detkin explains the etymology of “patent troll” by alluding to Billy Goats Gruff: “It’s someone lying under a bridge they didn’t build, demanding payment from anybody who passed.”<sup>11</sup>

Under this definition, “patent troll” may be applied to a number of mutually disparate entities:

- (1) [I]ndividual inventors or patent owners who do not make a product but seek to assert their patents against large corporations;
- (2) small think tanks who exist to think up ideas for inventions, patent them, and then assert or license them;
- (3) companies that seek solely to acquire patents for the purpose of asserting them and enforcing them in the courts if necessary;
- (4) universities and other academic institutions;
- (5) government research organizations; and
- (6) contract research companies.<sup>12</sup>

Due to concerns over the term “patent troll” being applied unfairly to some of these entities, legal scholars and practitioners have devised gentler sobriquets: “nonpracticing entity, or NPE; patent aggregator; patent marketer; nonmanufacturing entity or nonmanufacturing patentee; patent dealer; patent enforcer or patent enforcement specialist; patent pirates; [or] patent litigation firm.”<sup>13</sup> Manufacturing entities may be included if they “adopt a ‘patent factory’ approach and acquire patents covering products they are *not* manufacturing.”<sup>14</sup>

---

<sup>8</sup> See, e.g., Lisa Lerer, *Meet the Original Patent Troll*, LAW.COM: AN ALM WEB SITE (July 20, 2006), <http://www.law.com/jsp/article.jsp?id=1153299926232&slreturn=1>.

<sup>9</sup> See ASBELL, BRYER & LEBSON, *supra* note 4, at 145. Non-practicing entities “do not provide end products or services themselves, but who do demand royalties as a price for authorizing the work of others.” *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> Transcript of 441: *When Patents Attack!*, THIS AMERICAN LIFE, (2011) <http://www.thisamericanlife.org/radio-archives/episode/441/transcript> (last visited Feb. 21, 2012).

<sup>12</sup> ASBELL, BRYER & LEBSON, *supra* note 4, at 145.

<sup>13</sup> *Id.* (formatting modified for readability).

<sup>14</sup> *Id.*

To avoid clouding the issue with potentially emotionally charged terminology, this note will use the industry standard “nonpracticing entity,” or NPE.<sup>15</sup>

*B. The Case Against the NPE*

Though the term NPE is widely accepted, the primary criticism of NPEs is inherent in the name: instead of “commercializ[ing] the patented invention,” NPEs “generate income through aggressive licensing and litigation of their patent portfolios.”<sup>16</sup> This is at variance with the Constitutional foundation for patent law: “To promote the Progress of Science and useful Arts . . . .”<sup>17</sup> Indeed, “because a patent troll does not add anything to the technical sophistication of society and their primary purpose is to extract royalties or settlements from others, patent trolls stifle innovation and unnecessarily burden society by increasing costs of goods.”<sup>18</sup> While litigating lawsuits for patent infringement may be the “cost of doing business,” this cost is “invariably passed on to the consumer as higher costs for those goods.”<sup>19</sup>

There are two social policy justifications for our current patent system: a bilateral exchange of additions to the public domain for a limited term of exclusivity,<sup>20</sup> and a unilateral incentive to invent.<sup>21</sup> The more egregious examples of NPEs neither contribute to the public domain nor encourage invention, instead focusing exclusively on reallocation of wealth: an existing NPE may purchase patents cheaply with the sole intention of leveraging the patent for pretrial settlements or licensing revenue.<sup>22</sup> While some NPEs acquire patents, some patents create NPEs: as with the plaintiff-appellants in *Eon-Net*, a group of

---

<sup>15</sup> To be certain, the term “patent troll” has enough dissenting definitions that it would be intellectually dishonest to attempt to finalize its definition within this brief paper. Similarly, it would be disingenuous to attempt to add the term “non-inventing entity” to the literature.

<sup>16</sup> ASBELL, BRYER & LEBSON, *supra* note 4, at 144–45.

<sup>17</sup> U.S. CONST. art. 1, § 8, cl. 8.

<sup>18</sup> Brian D. Bender, *Note: Tiptoeing Through the Peripheral Minefield: Why Catering to Concepts of Notice is Misguided*, 2 CYBARIS®, AN INTELL. PROP. L. REV. 73, 102 (2011).

<sup>19</sup> *Id.* n. 202 (quoting Elizabeth D. Ferrill, *Patent Investment Trusts: Let’s Build a PIT to Catch the Patent Trolls*, 6 N.C. J.L. & Tech. 367, 376–77 (2005) (internal quotation marks omitted)).

<sup>20</sup> 1 R. CARL MOY, MOY’S WALKER ON PATENTS § 1:37 (4th ed. 2010). According to this view, the inventor’s disclosure is a significant benefit; without patenting, he or she would be able to keep the invention secret, thus preventing the stock of society’s stock of knowledge from increasing. Patenting, it is felt, is an adequate price to pay for the resulting increase in public knowledge. *Id.*

<sup>21</sup> *Id.* § 1:38. “According to this reasoning, the expectation that patent rights will be available causes inventions to be sought after more vigorously. This increased vigor is assumed to result in a faster pace of invention and the creation of inventions that would otherwise not have been made.” *Id.*

<sup>22</sup> ASBELL, BRYER & LEBSON, *supra* note 4, at 145.

patents may be allocated into interrelated subgroups, and a corporation may be created to hold and enforce that subgroup of patents. These enforcement corporations have legal defensive and offensive advantages not afforded to conventional corporations: as is true of Eon-Net, NPE corporations are insulated from many conventional business-related counterclaims, including counterclaims for patent infringement, antitrust, or unfair competition.<sup>23</sup> Additionally, “[a]n NPE often has no significant assets other than patents and has attorneys as its most significant employees.”<sup>24</sup> As described below in *Eon-Net*, some of the tactical advantages enjoyed by NPEs have been counted among “indicia of extortion.”<sup>25</sup>

### C. *The Case for the NPE*

It is all too easy to vilify a corporation created by an attorney for the sole purpose of generating revenue through lawsuits and threats of lawsuits. However, supporters of NPEs point out that this financial incentive “afford[s] inventors leverage in licensing negotiations by providing the sizeable amount of capital that is needed to create a serious threat of litigation.”<sup>26</sup> Couched as David versus Goliath, NPEs provide the most powerful weapon available to small inventors battling powerful corporations: financial capital sufficient to withstand expensive and protracted patent litigation.

Supporters of NPEs also point out that “NPEs create a market for intellectual property (IP) rights, which can be inherently difficult to value.”<sup>27</sup> By creating a market for IP rights, NPEs “allow inventors to be more readily compensated for their patents,” compensation which may be reapplied to subsequent inventions and concomitant patents.<sup>28</sup> When the IP market assigns a significant value to a particular invention, corporations and independent inventors will be increasingly motivated to innovate in that area of technology, including designing around currently patented technology.<sup>29</sup>

### D. *The Eon-Net NPE*

Some NPEs may spur some innovation, but the case at hand involves one of three NPEs created for the sole purpose of patent holding and enforcement.<sup>30</sup>

---

<sup>23</sup> See *infra* note 137 and accompanying text.

<sup>24</sup> ASBELL, BRYER & LEBSON, *supra* note 4, at 145.

<sup>25</sup> See *infra* notes 113–17 and accompanying text.

<sup>26</sup> ASBELL, BRYER & LEBSON, *supra* note 4, at 146.

<sup>27</sup> *Id.* at 145.

<sup>28</sup> *Id.* at 145–46.

<sup>29</sup> *Id.* at 146.

<sup>30</sup> See *infra* note 38 and accompanying text. While innovation and patent enforcement are not necessarily mutually exclusive, some NPEs exist only to accumulate and enforce patents.

While use of the term “patent extortionist” may result in a defamation lawsuit, *Eon-Net v. Flagstar* helps us understand the metes and bounds of “indicia of extortion” in NPE patent infringement lawsuits.<sup>31</sup>

Part II of this note describes an historical framework for *Eon-Net*, including a description of the patent family and the district court case on appeal in *Eon-Net*. Part III details the *Eon-Net* decision, explaining the claim construction, and outlining the support for § 285 and Rule 11 Sanctions. Part IV analyzes the court's discussion of a reasonable pre-suit investigation, offensive litigation, and “indicia of extortion,” and how boundaries for each of these categories have changed as a result of this decision. Part V analyzes the *Eon-Net* decision and two additional efforts to combat NPE abusive practices: the judicial changes in *eBay*, and the legislative changes in the Leahy-Smith America Invents Act. Part V also analyzes the extent to which *Eon-Net*, *eBay*, and America Invents Act are moving the patent system closer to achieving its societal and constitutional goals. In Part VI, this article concludes that while these cases and legislation are a step in the right direction, NPEs continue to have means and motivation to continue their abusive practices.

## II. HISTORY

At issue in the *Eon-Net v. Flagstar* decision are three U.S. patents sharing the title “Information Processing Methodology”:<sup>32</sup> 6,683,697<sup>33</sup> (“697”), 7,075,673<sup>34</sup> (“673”), and 7,184,162 (“162”).<sup>35</sup> These patents disclose a system and method for extracting specific information from a physical document for use in a computer program.<sup>36</sup> These patents are members of a “larger patent family that issued from continuation and divisional applications of a parent patent application filed in 1991 (the ‘Patent Portfolio’).”<sup>37</sup> The inventors listed on all three patents

---

<sup>31</sup> See *infra* Part III.

<sup>32</sup> *Eon-Net v. Flagstar*, 653 F.3d 1314, 1316 (Fed. Cir. 2011) [hereinafter *Eon-Net IV*].

<sup>33</sup> Information Processing Methodology, U.S. Patent No. 6,683,697 (filed Dec. 9, 1999) (issued Jan. 27, 2004).

<sup>34</sup> Information Processing Methodology, U.S. Patent No. 7,075,673 (filed Nov. 6, 2003) (issued July 11, 2006).

<sup>35</sup> Information Processing Methodology, U.S. Patent No. 7,184,162 (filed Apr. 15, 2005) (issued Feb. 27, 2007).

<sup>36</sup> *Eon-Net IV*, 653 F.3d 1314, at 1317. For example, the system may scan “portions of an invoice that contain the payee address or invoice amount, . . . format[] the selected information into a format recognized by Quicken®,” and then use Quicken® to “manipulate the information obtained from the hard copy documents to manage accounts, write checks, and prepare business records.” *Id.* at 1319.

<sup>37</sup> *Id.* at 1317.



are principals of Eon-Net, a patent holding company formed specifically to hold and enforce these three patents.<sup>38</sup>

In 2005, Eon-Net sued Flagstar, alleging that processing customer-entered website data infringed the ‘697 patent.<sup>39</sup> Because Flagstar used technology provided by a holder of a license to ‘697, Flagstar promptly moved for summary judgment of noninfringement.<sup>40</sup> Flagstar also moved for sanctions pursuant to FED. R. CIV. P. 11<sup>41</sup> (“Rule 11 sanctions”), alleging “that Eon-Net failed to investigate or identify allegedly infringing products and that Eon-Net asserted baseless infringement claims.”<sup>42</sup> The district court granted both summary judgment and Rule 11 sanctions, finding Eon-Net’s hard copy document processing patents inapplicable to Flagstar’s website, that Eon-Net’s claims were baseless, and “that Eon-Net failed to investigate or identify allegedly infringing products prior to filing suit.”<sup>43</sup> On appeal, because the district court failed to allow Eon-Net to present infringement and claim construction arguments, the Court of Appeals for the Federal Circuit vacated and remanded both summary judgment and sanctions.<sup>44</sup> Eon-Net amended its complaint to include ‘673 and ‘162,<sup>45</sup> and when the court concluded the disputed patent terms applied only to

---

<sup>38</sup> *Id.* Eon-Net is “one of a number of patent-holding companies formed to enforce various patents within the Patent Portfolio.” (citing *Eon-Net, L.P. v. Flagstar Bancorp, Inc. (Eon-Net III)*, No. C05-2129RSM, 2010 U.S. Dist. LEXIS 143114, at \*2 (W.D. Wash. Jan. 4, 2010) (order granting motion for fees and costs)) [hereinafter *Eon-Net III*]. The first five patents from the Patent Family were assigned to Millennium L.P., the ‘697, ‘673, and ‘162 patents were assigned to Eon-Net, and subsequent patents were assigned to Glory Licensing LLC.

<sup>39</sup> *Id.* at 1319.

<sup>40</sup> *Eon-Net IV*, 653 F.3d at 1319.

<sup>41</sup> Rule 11 of the Federal Rules of Civil Procedure requires a party to certify “that to the best of the person’s knowledge, information, and belief, formed after an inquiry reasonable under the circumstances . . . (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery . . . .” FED. R. CIV. P. 11(b). Sanctions for Rule 11 violations “must be limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated,” and may include “an order directing payment to the movant of part or all of the reasonable attorney’s fees and other expenses directly resulting from the violation.” FED. R. CIV. P. 11(c)(4).

<sup>42</sup> *Eon-Net IV*, 653 F.3d at 1319 (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, \*13).

<sup>43</sup> *Id.* (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, \*10–13).

<sup>44</sup> *Id.* (citing *Eon-Net LP v. Flagstar Bancorp*, 249 F. App’x 189, 198 (Fed. Cir. 2007) [hereinafter *Eon-Net I*]).

<sup>45</sup> *Id.* (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, \*20).

hard copy documents,<sup>46</sup> Eon-Net stipulated Flagstar did not infringe Eon-Net's patents.<sup>47</sup>

Following Eon-Net's stipulation, Flagstar moved for and was granted attorney fees under 35 U.S.C. § 285 (2006) ("§ 285").<sup>48</sup> In granting Flagstar's motion, the district court cited four actions by Eon-Net: pursuit of baseless infringement claims, improperly bringing a lawsuit to obtain a nuisance value settlement, destruction of evidence, and offensive litigation tactics.<sup>49</sup> On invitation from the district court, Flagstar renewed its motion for Rule 11 sanctions.<sup>50</sup> The court granted Rule 11 sanctions, "concluding that Eon-Net and its counsel failed to perform a reasonable pre-filing investigation and that their claim construction positions were unsupportable."<sup>51</sup> The court granted \$141,984.70 in attorney fees and costs under Rule 11, and \$489,150.48 under § 285.<sup>52</sup> Eon-Net appealed the claim construction, the § 285 exceptional case finding, and Rule 11 sanctions.<sup>53</sup>

### III. THE EON-NET V. FLAGSTAR DECISION

#### A. *Claim Construction*

The court of appeals began by addressing claim construction de novo.<sup>54</sup> Eon-Net formed a three-part argument against the district court's construction of the terms file, document, extract, and template.<sup>55</sup> First, Eon-Net asserts that the ordinary meanings of these terms "are not limited to information derived from a hard copy document."<sup>56</sup> Second, Eon-Net argues the asserted claims are directed toward a "computer file embodiment" as disclosed in the written description.<sup>57</sup> Finally, Eon-Net cites other instances in which the United States Patent and

---

<sup>46</sup> *Id.* at 1320 (citing *Eon-Net L.P. v. Flagstar Bancorp, Inc.*, 2009 U.S. Dist. LEXIS 24080, \*31–35 [hereinafter *Eon-Net II*]).

<sup>47</sup> *Eon-Net IV*, 653 F.3d at 1320.

<sup>48</sup> *Id.* (citing Exceptional Case Order, *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*29). In its entirety, 35 U.S.C. § 285 reads "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." *See, e.g.*, *Unilectric, Inc. v. Holwin Corp.* 243 F2d 393 (7th Cir. 1957) (holding that attorney fees may be awarded in a suit for declaratory judgment of patent noninfringement), *cert. denied* 355 US 830 (1957).

<sup>49</sup> *Eon-Net IV*, 653 F.3d at 1320 (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, \*31–48).

<sup>50</sup> *Id.*

<sup>51</sup> *Id.* (citing Supplemental Order on Fees and Costs, at 6–8, *Eon-Net III*, 2010 U.S. Dist. LEXIS 58784).

<sup>52</sup> *Id.* (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 58784, at \*24).

<sup>53</sup> *Id.*

<sup>54</sup> *Eon-Net IV*, 653 F.3d at 1320.

<sup>55</sup> *Id.* at 1321.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

Trademark Office has allowed claims “that expressly recite that the claimed ‘document’ or ‘file’ is ‘not derived from scanning a hard copy document,’” and that it must follow that these terms should not be limited to information from a hard copy document.<sup>58</sup>

The court of appeals disagreed with Eon-Net’s arguments. While the court agreed that “claim terms should be given their ordinary and customary meaning,”<sup>59</sup> claims must be read in the context of the specification,<sup>60</sup> and that “usually, the specification’s use of a claim is dispositive.”<sup>61</sup> Here, as the court pointed out, “The written description repeatedly and consistently defines the invention as a system that processes information derived from hard copy documents.”<sup>62</sup> In support of its argument, the court cited passages from the Background of the Invention, the Summary of the Invention, and the written description,<sup>63</sup> and that the common disclosure of the three patents includes “hard copy document” more than 100 times.<sup>64</sup> Addressing Eon-Net’s first two arguments, the court found that the disputed claim terms apply to hard copy documents, and that Eon-Net’s argument that the terms apply to a “computer file embodiment” is “without merit.”<sup>65</sup>

Similarly, the court of appeals disagreed with Eon-Net’s claim differentiation argument.<sup>66</sup> First, the court pointed out that “claim differentiation is a rule of thumb that does not trump the clear import of the specification,” and that this specification defines the invention only in terms of information derived from hard copy documents.<sup>67</sup> Second, the patents cited for claim differentiation “recite that the claimed ‘file’ or ‘document file’ is not derived from ‘scanning a hard copy document.’”<sup>68</sup> Unlike the cited patents, Eon-Net’s claim language does not address a scope beyond information from a hard copy document: “The specification discloses that ‘scanning’ is only one of many methods to obtain information from a hard copy document . . . .”<sup>69</sup> The court concluded “the

---

<sup>58</sup> *Id.*

<sup>59</sup> *Eon-Net IV*, 653 F.3d at 1320 (citing *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312–13 (Fed. Cir. 2005)).

<sup>60</sup> *Id.* (citing *Phillips*, 415 F.3d at 1315).

<sup>61</sup> *Id.*

<sup>62</sup> *Id.* at 1321.

<sup>63</sup> *Id.*

<sup>64</sup> *Eon-Net IV*, 653 F.3d at 1322.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.* at 1323.

<sup>67</sup> *Id.* (quoting *Edwards Lifesciences, LLC v. Cook Inc.*, 582 F.3d 1322, 1331 (Fed. Cir. 2009)).

<sup>68</sup> *Id.* (citing claim 3 of U.S. Patent 7,570,383 and claim 5 of U.S. Patent 7,672,007).

<sup>69</sup> *Eon-Net IV*, 653 F.3d at 1323.

specification unequivocally compels the constructions adopted by the district court.”<sup>70</sup>

### B. § 285 Sanctions

A district court may award attorney fees under § 285 if it finds the case is “exceptional.”<sup>71</sup> A § 285 finding is a three-step process:<sup>72</sup> first, the prevailing party must “prove[] by clear and convincing evidence that the case is exceptional;”<sup>73</sup> second, the court must decide whether the case warrants awarding attorney fees;<sup>74</sup> third, the court must decide the amount of the attorney fees.<sup>75</sup> Misconduct sufficient to support an exceptional finding under § 285 may result from a combination of unprofessional behavior and litigation misconduct,<sup>76</sup> or if one party “lodg[es] frivolous filings and engage[es] in vexatious or unjustified litigation.”<sup>77</sup> Absent misconduct, a patentee may support a § 285 finding if the litigation was brought in bad faith and is objectively baseless.<sup>78</sup> Before sustaining the district court findings, the court of appeals addressed each of these components in turn.<sup>79</sup>

#### 1. Litigation Misconduct

On appeal, Eon-Net asserted it had not destroyed relevant documents.<sup>80</sup> However, Eon-Net’s principal, Mitchell Medina, testified that because Eon-Net and Millennium<sup>81</sup> have “evolved into patent enforcement companies which are involved in the business of litigation,” they “have adopted a document retention policy which is that we don’t retain any documents . . . .”<sup>82</sup> Despite having other

<sup>70</sup> *Id.*

<sup>71</sup> *Id.* at 1323.

<sup>72</sup> *See id.* at 1323–24 (the case lists this as a two-step process, but then clarifies that the amount of the award is determined only after first deciding whether attorney fees are appropriate).

<sup>73</sup> *Id.* at 1323 (citing *Forest Labs., Inc. v. Abbott Labs.*, 339 F.3d 1324, 1327 (Fed. Cir. 2003)).

<sup>74</sup> *Eon-Net IV*, 653 F.3d, at 1323–24 (citing *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed. Cir. 1998)).

<sup>75</sup> *Id.*

<sup>76</sup> *Id.* at 1324 (citing *Rambus Inc. v. Infineon Techs, AG*, 318 F.3d 1081, 1106 (Fed. Cir. 2003)).

<sup>77</sup> *Id.* (citing *Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.*, 549 F.3d 1381, 1387–88 (Fed. Cir. 2008)).

<sup>78</sup> *Id.* (citing *Brooks Furniture Mfg., Inc. v. Dutailer Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005)).

<sup>79</sup> *See Eon-Net IV*, 653 F.3d at 1323–1328.

<sup>80</sup> *Id.* at 1324.

<sup>81</sup> The first five patents within the Patent Portfolio were assigned to Millennium; the next three patents were assigned to Eon-Net. *Supra* note 38.

<sup>82</sup> *Eon-Net IV*, 653 F.3d 1314 at 1324 (citing Exceptional Case Order, *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*21–22).

pending cases, Medina and attorney Zimmerman discarded all documents related to the Patent Portfolio in 2003,<sup>83</sup> though Zimmerman later asserted he only discarded documents that were publicly available or non-essential.<sup>84</sup> Citing Eon-Net's undisputed "independent duty to preserve evidence during the ongoing lawsuits,"<sup>85</sup> the court of appeals concluded "in light of Medina's testimony, it was not clear error for the district court to conclude that Eon-Net did not observe that duty."<sup>86</sup>

Eon-Net also asserted that its claim construction was reasonable.<sup>87</sup> Despite having prevailed on their earlier appellate court case because the district court failed to allow Eon-Net to present infringement and claim construction arguments,<sup>88</sup> Eon-Net "failed to offer a construction for any disputed claim terms, lodged incomplete and misleading extrinsic evidence with the court, and submitted declarations that contradicted earlier deposition testimony by the declarants."<sup>89</sup> Eon-Net contended that the claim terms did not require construction because the district court was not obligated to construe each claim term.<sup>90</sup> While true, this did not overcome Eon-Net's submission of incomplete and misleading evidence.<sup>91</sup>

As further evidence of misconduct, the district court noted that "Eon-Net and Medina had a 'cavalier attitude' towards the 'patent litigation process as a whole.'"<sup>92</sup> The district court cited an interrogatory response from a different case involving the Patent Portfolio in which Medina asserted "the skill in the art required is that sufficient to converse meaningfully with Mitchell Medina,"<sup>93</sup> an assertion the appellate court characterized as "snide."<sup>94</sup> The district court also

<sup>83</sup> *Id.* (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*24–26).

<sup>84</sup> *Id.* (citing Brief for Plaintiff/Sanctioned Party-Appellant Eon-Net LP and Sanctioned Parties-Appellants Zimmerman & Levi, L.L.P. and Jean-Marc Zimmerman at 52, *Eon-Net IV*, 653 F.3d 1314 (Fed. Cir. 2011) (No. 2009–1308), 2010 WL 5558498).

<sup>85</sup> *Eon-Net IV*, 653 F.3d at 1325 (citing *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1575 (Fed. Cir. 1996)).

<sup>86</sup> *Id.*

<sup>87</sup> *Id.* at 1324.

<sup>88</sup> *Id.* at 1325 (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*34).

<sup>89</sup> *Id.* (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*36–37).

<sup>90</sup> *Eon-Net IV*, 653 F.3d at 1325 (citing *O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.*, 521 F.3d 1351, 1362 (Fed. Cir. 2008)).

<sup>91</sup> *Id.*

<sup>92</sup> *Id.* (quoting *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*43–44).

<sup>93</sup> *Id.* (internal quotation marks omitted) (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*44).

<sup>94</sup> *Id.* Fully appreciating the hypocrisy of this statement, the author suggests avoiding referring to oneself in the third person.

cited deposition testimony in which Medina indicated he was “so sick of this stuff, especially this haggling over stupidities and trivialities which is the name of the game in litigation.”<sup>95</sup> Though Eon-Net asserted the interrogatory was a “draft,” the interrogatory was signed by attorney Zimmerman, was not amended, was not withdrawn, and was not identified as mistakenly served.<sup>96</sup> Moreover, Eon-Net failed to address Medina’s deposition testimony.<sup>97</sup> The court of appeals concluded that Eon-Net failed to demonstrate the district court clearly erred in finding litigation misconduct.<sup>98</sup>

## 2. *Objectively Baseless Litigation in Bad Faith*

The court of appeals began its examination of the district court finding of baseless infringement allegations by reexamining claim construction.<sup>99</sup> Alluding to its earlier discussion of claim construction,<sup>100</sup> the court reaffirmed “the written description clearly refutes Eon-Net’s claim construction . . . .”<sup>101</sup> The court contrasted the instant case with *iLOR v. Google*,<sup>102</sup> in which a patent’s written description did not objectively refute the patentee’s claim construction.<sup>103</sup> The court concluded its analysis of claim construction by addressing Eon-Net’s observation that the court previously stated in dicta “that one portion of the written description supported Eon-Net’s construction because it discloses that the hardware for inputting document information can include devices other than a scanner.”<sup>104</sup> The court of appeals stated that not only was their dicta clearly refuted by repeated and express definitions within the written description, but also that the same “opinion expressly le[ft] open the possibility that, after a full claim construction analysis, the district court could conclude that Eon-Net’s claim

---

<sup>95</sup> *Eon-Net IV*, 653 F.3d at 1325 (internal quotation marks omitted) (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*43–44).

<sup>96</sup> *Id.* at 1325–26.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Eon-Net IV*, 653 F.3d at 1320–23; *see also supra* Part III.A.

<sup>101</sup> *Id.* at 1326.

<sup>102</sup> *iLOR v. Google, Inc.*, 631 F.3d 1372 (Fed. Cir. 2011).

<sup>103</sup> *Eon-Net IV*, 653 F.3d at 1326 (citing *iLOR*, 631 F.3d at 1378–79) (reversing the lower court’s finding “that the patentee’s claim construction was objectively baseless where ‘[o]n its face, the claim language does not preclude the patentee’s construction,’ the written description failed to ‘clearly refute the patentee’s construction,’ and the patentee could reasonably argue that the prosecution history did not preclude its construction.”)

<sup>104</sup> *Id.* (citing *Eon-Net LP v. Flagstar Bancorp*, 249 Fed. Appx. 189, 196 (Fed. Cir. 2007)).

construction position was baseless, which is what happened in this case on remand.”<sup>105</sup>

The court then turned to the district court’s finding “that Eon-Net filed the lawsuit in bad faith and for an improper purpose.”<sup>106</sup> Eon-Net argued that the purpose of the suit was to obtain licensing revenue, and that this constitutes a proper purpose.<sup>107</sup> However, the district court indicated Eon-Net’s case “had ‘indicia of extortion’ because it was part of Eon-Net’s history of filing nearly identical patent infringement complaints against a plethora of diverse defendants, where Eon-Net followed each filing with a demand for a quick settlement at a price far lower than the cost to defend the litigation.”<sup>108</sup> The appellate court analysis of the district court finding of filing multiple similar patent infringement complaints was brief: the appellate court observed the Patent Portfolio was the basis for “over 100 lawsuits against a number of diverse defendants . . . .”<sup>109</sup>

Turning to the district court finding of bad faith, the court of appeals found bad faith supported by Eon-Net “exploiting the high cost to defend complex litigation to extract a nuisance value settlement from Flagstar.”<sup>110</sup> Here, the “nuisance value settlement” followed a schedule: “\$25,000 for sales less than \$3,000,000; \$50,000 for sales between \$3,000,000 and \$20,000,000; and \$75,000 for sales between \$20,000,000 and \$100,000,000.”<sup>111</sup> This settlement offer was “lower than the cost of litigation, a demand to which most defendants apparently have agreed.”<sup>112</sup> In the instant case, the defendant’s cost of litigation through the claim construction phase was over \$600,000.<sup>113</sup> Compared to Eon-Net’s settlement schedule range of \$25,000 to \$75,000, it is apparent why the other 100 accused patent infringers would choose to settle.<sup>114</sup> This settlement schedule

---

<sup>105</sup> *Id.* (citation omitted).

<sup>106</sup> *Id.* (citing *Eon-Net III*, No. C05-2129RSM, 2010 U.S. Dist. LEXIS 143114, at \*38–39 (W.D. Wash. Jan. 4, 2010) (order granting motion for fees and costs)).

<sup>107</sup> *Id.* at 1324.

<sup>108</sup> *Eon-Net IV*, 653 F.3d, at 1326.

<sup>109</sup> *Id.* at 1327 (citing *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*2–4, 16).

<sup>110</sup> *Id.*

<sup>111</sup> *Id.* (citing *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, 239 F.R.D. 609, 612–13 (W.D. Wash. 2006) (order granting Rule 11 sanctions)).

<sup>112</sup> *Id.* (quoting *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*38). According to this schedule, a settlement of \$25,000 may comprise a significant percentage of a company’s annual sales, e.g., \$25,000 / \$100,000 annual sales = 25%; however for companies with annual sales greater than \$3,000,000, the settlement is always less than 2% of annual sales: \$25,000 / \$3,000,000 = 0.83%; \$50,000 / \$3,000,000 = 1.67%; \$75,000 / \$20,000,000 = 0.375%.

<sup>113</sup> *Eon-Net IV*, 653 F.3d at 1327 (citing *Eon-Net III*, No. C05-2129RSM, 2010 U.S. Dist. LEXIS 58784, at \*8–11 (W.D. Wash. May 17, 2010) (supplemental order granting fees and costs)).

<sup>114</sup> *See id.*

“effectively ensured that Eon-Net's baseless infringement allegations remained unexposed, allowing Eon-Net to continue to collect additional nuisance value settlements.”<sup>115</sup>

In addition to the high cost of claim construction, the court noted Eon-Net was in an advantageous offensive position “to impose disproportionate discovery costs” on accused infringers.<sup>116</sup> Due to local discovery rules and the Federal Rules of Civil Procedure, “it is not uncommon for an accused infringer to produce millions of pages of documents” at the expense of the producing party.<sup>117</sup> The court pointed out that the \$600,000 expended in the case at hand did not include discovery unrelated to claim construction, and that full discovery would have “substantially increased” this cost.<sup>118</sup>

The court also noted Eon-Net was in an advantageous defensive position afforded by its status as a non-practicing entity.<sup>119</sup> On Medina’s own admission, Eon-Net and Millennium “evolved into patent enforcement companies which are involved in the business of litigation . . . .”<sup>120</sup> Due to the limited nature of Eon-Net’s business activities, it was immune to business-related counterclaims arising from patent infringement, antitrust, or unfair competition.<sup>121</sup> At no time did Eon-Net risk losing “patent protection over a product or process,” instead risking only licensing revenue due to invalid or narrowly construed patents, a risk mitigated by the high cost of litigating claim construction, the disproportionate cost of discovery, and the comparatively low cost outlined by the settlement schedule.<sup>122</sup> As the court noted, “[i]ts patents protected only settlement receipts, not its own products.”<sup>123</sup>

### C. Rule 11 Sanctions

Applying Ninth Circuit law, Rule 11 sanctions require two conditions: the complaint must be objectively “legally or factually baseless,” and the attorney must have “failed to conduct a reasonable and competent inquiry before filing the

---

<sup>115</sup> *Id.* at 1327.

<sup>116</sup> *See id.*

<sup>117</sup> *Id.* (citing *Oppenheimer Fund, Inc. v. Sanders*, 437 U.S. 340, 358 (1978)).

<sup>118</sup> *Eon-Net IV*, 653 F.3d at 1327.

<sup>119</sup> *See id.*

<sup>120</sup> *Id.* at 1324 (citing *Eon-Net III*, No. C05-2129RSM, 2010 U.S. Dist. LEXIS 143114, at \*21–22 (W.D. Wash. Jan. 4, 2010) (order granting motion for fees and costs)).

<sup>121</sup> *Id.* at 1327–28.

<sup>122</sup> *See id.*

<sup>123</sup> *Eon-Net IV*, 653 F.3d at 1328.



complaint.”<sup>124</sup> The court of appeals again alluded to its claim construction analysis to satisfy the first condition, finding Eon-Net’s infringement allegations to be legally baseless.<sup>125</sup>

Turning to the second condition, the court of appeals evaluated the reasonability of Eon-Net’s pre-suit investigation.<sup>126</sup> Eon-Net had examined portions of Flagstar’s website and concluded the website infringed the ‘697 patent, asserting this constituted a reasonable pre-suit investigation.<sup>127</sup> The court of appeals disagreed, stating Eon-Net was also required “to perform an objective evaluation of the claim terms when reading those terms on the accused device.”<sup>128</sup> The court of appeals quoted the district court’s finding that “[t]he specification exposes the frivolity of Eon-Net’s claim construction position,” a position that “borders on the illogical . . . .”<sup>129</sup> Unpersuaded that the district court abused its discretion, the court of appeals upheld the Rule 11 sanctions.<sup>130</sup>

The court of appeals concluded by finding Eon-Net’s remaining arguments without merit.<sup>131</sup> In all, the Federal Circuit Court of Appeals affirmed the district court’s claim construction,<sup>132</sup> the § 285 exceptional case finding,<sup>133</sup> and Rule 11 sanctions.<sup>134</sup>

#### IV. EON-NET ANALYSIS

On first impression, *Eon-Net* serves as a cautionary tale for NPEs. However, even a harshly punitive rebuke is instructive: in enumerating the basis for awarding attorney fees, the opinion of the court of appeals outlines the minimal effort required to avoid having to pay attorney fees and costs under § 285 and Rule 11.

<sup>124</sup> *Id.* at 1328 (internal quotation marks omitted) (citing *Christian v. Mattel, Inc.*, 286 F.3d 1118, 1127 (9th Cir. 2002)).

<sup>125</sup> *Id.*

<sup>126</sup> *Id.* at 1328–29.

<sup>127</sup> *See id.* (citing *Eon-Net I*, 249 Fed. Appx 189, 196 (Fed. Cir. 2007)).

<sup>128</sup> *Eon-Net IV*, 653 F.3d at 1329 (citing *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300–01 (Fed. Cir. 2004); *S. Bravo Sys., Inc. v. Containment Techs. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996)).

<sup>129</sup> *Id.* at 1329 (quoting *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, 239 F.R.D. 609, 616–17 (W.D. Wash. 2006) (order granting Rule 11 sanctions)).

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

<sup>132</sup> *Id.* at 1323.

<sup>133</sup> *Eon-Net IV*, 653 F.3d at 1328.

<sup>134</sup> *Id.* at 1329. Because the court of appeals affirmed the district court, it simultaneously denied Eon-Net’s request to reassign the case to a different district judge in a different judicial district. *Id.* at 1320 n.2.

*Eon-Net* listed four components supporting the § 285 exceptional case finding: “Eon-Net’s pursuit of baseless infringement claims, Eon-Net’s improper purpose of bringing the lawsuit against Flagstar to obtain a nuisance value settlement, Eon-Net’s destruction of evidence, and Eon-Net’s offensive litigation tactics.”<sup>135</sup> Similarly, Rule 11 sanctions require a finding “that the complaint is legally or factually baseless from an objective perspective and that the attorney failed to conduct a reasonable and competent inquiry before filing the complaint.”<sup>136</sup>

#### A. *Reasonable Pre-Suit Investigation*

In the instant case, Rule 11 sanctions resulted from Eon-Net’s failure to conduct a reasonable pre-suit investigation, which turned on Eon-Net’s failure “to perform an objective evaluation of the claim terms.”<sup>137</sup> At first blush, this argument may seem circular: the court of appeals sustained Rule 11 sanctions because of its claim construction, but claim construction could only be evaluated by bringing its case to court. However, claim construction is routinely completed by patentees considering filing infringement actions, and as demonstrated here, is required in any reasonable pre-suit patent infringement investigation.

For Eon-Net, it seems Rule 11 sanctions were inevitable. Eon-Net’s specification was so different from the accused infringer’s practices that the district court characterized Eon-Net’s claim construction as frivolous and illogical.<sup>138</sup> The district court initially assessed Rule 11 sanctions and the appellate court remanded to allow Eon-Net to present claim construction arguments. The district court then assessed Rule 11 sanctions and added § 285 fees and costs, and the appellate court upheld this ruling.<sup>139</sup> Though usually self-

---

<sup>135</sup> See *Eon-Net IV*, 653 F.3d at 1320. See also *supra* Part III.B.2 (discussing Eon-Net’s pursuit of baseless infringement claims); see also *infra* Part IV.B (discussing Eon-Net’s destruction of evidence).

<sup>136</sup> *Id.* at 1328 (internal quotation marks omitted) (citing *Christian v. Mattel, Inc.*, 286 F.3d 1118, at 1127 (9th Cir. 2002)).

<sup>137</sup> *Eon-Net IV*, 653 F.3d at 1329 (citing *Q-Pharma, Inc. v. Andrew Jergens Co.*, 360 F.3d 1295, 1300–01 (Fed. Cir. 2004); *S. Bravo Sys., Inc. v. Containment Techs. Corp.*, 96 F.3d 1372, 1375 (Fed. Cir. 1996)).

<sup>138</sup> *Id.* at 1329 (quoting Order on Sanctions Pursuant to Fed. R. Civ. P. 11, 239 F.R.D. at 617).

<sup>139</sup> *Id.* at 1320–23; *supra* Parts II–III. Though Rule 11 sanctions seem to have been inevitable, had Eon-Net refrained from appealing the original district court’s claim construction and Rule 11 sanctions, Flagstar would not have had opportunity to move under § 285 and the district court would not have had opportunity to grant § 285 costs and fees “for litigating the case following remand.” *Id.* at 1320 (citing *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, No. C05-2129RSM, *Eon-Net III*, 2010 U.S. Dist. LEXIS 58784, at \*24 (D. Wash. May 17, 2010)).

evident, this underscores the importance of performing a reasonable pre-suit claim construction.

### B. *Destruction of Evidence*

As expected, a party may avoid destruction of evidence by implementing a document retention policy, executing the “independent duty to preserve evidence during the ongoing lawsuits.”<sup>140</sup> Moreover, a company executive may garner favor by avoiding glib testimony that the company has “adopted a document retention policy which is that [it doesn’t] retain any documents . . . .”<sup>141</sup> Though the court of appeals did not discuss spoliation of evidence,<sup>142</sup> the court was unable to determine whether Eon-Net attorney Zimmerman only “discarded publicly available documents and nonessential documents” as claimed,<sup>143</sup> and could not conclude that Eon-Net had observed their duty.<sup>144</sup>

### C. *Offensive Litigation Practices*

Similarly, Eon-Net’s offensive litigation practices should be avoided. At a minimum, care should be taken to avoid “lodg[ing] incomplete and misleading extrinsic evidence with the court, and submitt[ing] declarations that contradict[] earlier deposition testimony by the declarants.”<sup>145</sup> Additionally, when trying a case remanded specifically to afford the opportunity to argue claim construction, it is important to offer a construction for any disputed claim terms. Of course, a party should avoid submitting—and should make a reasonable effort to amend any—“snide” interrogatory responses.<sup>146</sup>

---

<sup>140</sup> *Id.* at 1325 (citing *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1575 (Fed. Cir. 1996)).

<sup>141</sup> *Id.* at 1324 (citing *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, No. C05-2129RSM, *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*21–22).

<sup>142</sup> “Spoliation of evidence refers to the ‘act of damaging evidence.’” Michael A. Zuckerman, *Yes, I Destroyed The Evidence – Sue Me? Intentional Spoliation of Evidence in Illinois*, 27 J. MARSHALL J. COMPUTER & INFO. L. 235, 236 (2009). “The word ‘spoliation’ is derived from the Latin phrase *omnia praesumuntur contra spoliatorum*, which means ‘all things are presumed against a despoiler or wrongdoer.’” *Id.* at n.17 (citing Lawrence Solum & Stephen Marzen, *Truth and Uncertainty: Legal Control of the Destruction of Evidence*, 36 EMORY L.J. 1085, 1087 (1987)).

<sup>143</sup> *Eon-Net*, 653 F.3d 1314, 1325 (Fed. Cir. 2011) (citing Brief for Appellant at 52).

<sup>144</sup> *Id.* at 1325.

<sup>145</sup> *Id.* (citing Exceptional Case Order, *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, No. C05-2129RSM, *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*36–37).

<sup>146</sup> *See supra* note 93 and accompanying text.

*D. Indicia of Extortion*

Unlike destruction of evidence and offensive litigation, the threshold for “indicia of extortion” is not clearly defined. However, the court of appeals listed two affirmative actions taken by Eon-Net: filing a series of “nearly identical patent infringement complaints against a plethora of diverse defendants,” and following each filing with a settlement demand “at a price far lower than the cost to defend the litigation . . . .”<sup>147</sup> To avoid the former indication, patent litigants should make reasonable efforts to identify potential infringers with more certainty. To avoid the latter indication, patent litigants should follow the initial infringement suit filing with a demand higher than Eon-Net’s schedule: while this may increase the likelihood that a company may not settle before claim construction, it would increase the value of the cases that settled, and *Eon-Net* suggests a court would be less likely to find “indicia of extortion.”<sup>148</sup>

Also listed among “indicia of extortion” are the offensive and defensive advantages afforded to Eon-Net by virtue of its status as a non-practicing entity. Offensively, Eon-Net is in a position to use discovery rules to impose disproportionate discovery costs on an accused patent infringer. Defensively, Eon-Net undertook minimal risk by suing: “As a non-practicing entity, Eon-Net was generally immune to counterclaims for patent infringement, antitrust, or unfair competition because it did not engage in business activities that would potentially give rise to those claims.”<sup>149</sup> Unfortunately for everyone involved, these are some of the characteristics endemic to NPEs, and little can be done to mitigate them.

## V. CURTAILING THE NPE

*A. Three-Pronged Attack*

In order to constrain the activities of the NPE, *Eon-Net* provides for § 285 and Rule 11 sanctions. In addition, other courts and the legislature have begun to address some of the tactical advantages of NPEs. Two of the most significant

---

<sup>147</sup> *Eon-Net*, 653 F.3d 1314, 1326 (citing Exceptional Case Order, *Eon-Net, L.P. v. Flagstar Bancorp, Inc.*, No. C05-2129RSM, *Eon-Net III*, 2010 U.S. Dist. LEXIS 143114, at \*36–37).

<sup>148</sup> *Cf. Eon-Net*, 653 F.3d 1314, 1326 (*Eon-Net* supports the proposition that a low settlement schedule can be counted among “indicia of extortion”; it follows that the same court would be less likely to fault a more expensive settlement schedule).

<sup>149</sup> *Id.* at 1327. The court of appeals expounded, stating “while Eon-Net risked licensing revenue should its patents be found invalid or if a court narrowly construed the patents’ claims to exclude valuable targets, Eon-Net did not face any business risk resulting from the loss of patent protection over a product or process. Its patents protected only settlement receipts, not its own products.” *Id.* at 1327–28.

efforts are the Supreme Court's decision in *eBay v. MercExchange*,<sup>150</sup> and the enactment of the Leahy-Smith America Invents Act.<sup>151</sup>

### 1. Sanctions after Eon-Net

Other than demonstrating a willingness to apply Rule 11 and § 285, *Eon-Net* does little to deter other NPEs from a careful execution of Eon-Net's otherwise successful get-rich-quick scheme. The scheme is the classic *modus operandi* of NPEs: allocate a few related patents to a non-practicing company, identify companies likely to have infringed on the patents, file an infringement suit, and follow the suit with an offer for settlement. Indeed, patents within the Patent Portfolio assigned to Millennium were used to extract settlements in "six or seven dozen cases" of alleged patent infringement before being declared invalid,<sup>152</sup> and there appears to be no suggestion of attorney discipline.<sup>153</sup> Just as businesses may view defending against NPE patent infringement suits as a cost of doing business, so may NPEs view Rule 11 and § 285 as a cost of doing business. The full judgment against Eon-Net of \$631,135.18 may be recouped in twenty-five \$25,000 settlements or nine \$75,000 settlements. If the Millennium patents extracted six dozen settlements at a median value of \$50,000 before being declared invalid, this would result in a windfall of \$3,600,000.<sup>154</sup>

Not only do NPEs have a clear financial motivation to pursue potential patent infringers, but potential infringers also have a clear financial motivation to pay for a patent license. Given the choice between paying for a patent license and defending against infringement, "we can expect the potential infringer to be willing to pay a licensing fee equal to or less than the total expected cost under the

---

<sup>150</sup> *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

<sup>151</sup> Leahy-Smith America Invents Act of 2011, Pub. L. No. 112-29, 125 Stat. 284-341 (codified as 35 U.S.C. *passim*).

<sup>152</sup> *Glory Licensing LLC v. Toys "R" Us, Inc.*, No. 09-4252, 2011 U.S. Dist. LEXIS 51888 at \*3 n.1 (D. N.J. May 16, 2011) (citing April 25, 2011 Tr. at 37:12-37:21).

<sup>153</sup> New Jersey Judiciary records do not indicate Eon-Net attorney Jean-Marc Zimmerman has ever been disciplined (<http://www.judiciary.state.nj.us/oae/discipline.htm>), though it appears that Zimmerman was declared ineligible to practice law from October 26, 2009 (*see* Notice to the Bar Re: IOLTA Ineligible List, *available at* <http://www.judiciary.state.nj.us/notices/2009/n091023a.pdf>) to September 27, 2010 (*see* Attorneys Reinstated from Ineligible List, *available at* <http://www.judiciary.state.nj.us/notices/2011/n110921b.pdf>) for an unspecified violation of New Jersey rules on Income on Non-Interest Bearing Lawyers Trust Accounts (IOLTA) Fund (*see* Income on Non-Interest Bearing Lawyers Trust Accounts (IOLTA) Fund, *available at* [http://www.ioltanj.org/lwr\\_courtrules.html](http://www.ioltanj.org/lwr_courtrules.html)).

<sup>154</sup> The median (middle value) of \$25,000, \$50,000, and \$75,000 is \$50,000; \$50,000 x 6 x 12 = \$3,600,000.

litigation option.”<sup>155</sup> The cost of litigation is comprised of “(1) the expected cost of court-awarded damages; (2) the expected cost of having to comply with a permanent injunction, whether through a design-around, licensing, or simple termination of infringing activity; and (3) the expected cost of litigation itself, including attorney fees and court costs.”<sup>156</sup>

Because damages and permanent injunctions generally may not precede a determination of infringement, a relatively weak patent suit will mitigate the exposure associated with damages or permanent injunction.<sup>157</sup> For patent suits in general, “most litigation costs are apparently incurred by the end of discovery,” so the cost of litigation will dominate the patent infringement exposure calculation.<sup>158</sup> Because litigation costs in defending against patent infringement are “generally at least on the order of \$1 million,”<sup>159</sup> a potential infringer has substantial motivation to settle even a weak patent suit. Of course, for stronger allegations of patent infringement, the alleged infringer is under the additional financial pressure applied by the potential cost of damages or a permanent injunction.

## 2. *Injunctions After eBay v. MercExchange*

*Eon-Net v. Flagstar* was notable for its atypical award of attorney fees and costs to the defendant. More conventionally, attorney fees are available as a remedy for patent infringement, along with compensatory and equitable relief.<sup>160</sup> For the purposes of the current NPE discussion, this section focuses on recent changes in equitable relief and their chilling effect on NPE lawsuits.

Equitable relief for patent infringement includes preliminary and permanent injunctions.<sup>161</sup> A court may issue a preliminary injunction to “prevent possible

<sup>155</sup> John M. Golden, *SYMPOSIUM: Frontiers of Intellectual Property: Patent Reform Commentary: "Patent Trolls" and Patent Remedies*, 85 TEX. L. REV. 2111, 2126 (2007). (this “assum[es] that transaction costs associated with licensing can be treated as negligible”). *Id.*

<sup>156</sup> *Id.*

<sup>157</sup> *Id.* at 2127–28.

<sup>158</sup> *Id.* at 2128 (citing Law Practice Mgmt. Comm., Am. Intellectual Prop. Law Ass'n, Report of the Economic Survey 2005, at 22 (2005)).

<sup>159</sup> *Id.* at 2128 & n.60. Compared against Eon-Net's settlement schedule of \$25,000-\$75,000 amounts to 2.5-7.5% of \$1,000,000, which lends support to the appellate court characterization of such a schedule as a “nuisance value settlement.” See *Eon-Net*, 653 F.3d 1314, 1327; *supra* note 49 and accompanying text. However, compared to the initial award of \$141,984.70, \$75,000 is 52.8%.

<sup>160</sup> SHELDON W. HALPERN, CRAIG ALLEN NARD & KENNETH L. PORT, *FUNDAMENTALS OF UNITED STATES INTELLECTUAL PROPERTY LAW: COPYRIGHT, PATENT, AND TRADEMARK* 283 (2nd ed. 2007).

<sup>161</sup> *Id.*

ongoing infringement of a patent prior to a finding of infringement,”<sup>162</sup> and until *eBay, Inc. v. MercExchange, L.L.C.*,<sup>163</sup> a permanent injunction usually followed a finding of infringement.<sup>164</sup> While “an injunction may be of little or no value to a plaintiff whose patented technology is long outdated at the conclusion of a lengthy trial,”<sup>165</sup> injunctions could be “extremely valuable, even for their bullying power alone.”<sup>166</sup> Such threats can significantly increase settlement offers, especially for an NPE filing a series of lawsuits intended to induce quick settlements.

Between the 1983 case *Smith International, Inc., v. Hughes Tool Co.*<sup>167</sup> and the 2006 *eBay* case,<sup>168</sup> “the Federal Circuit presumptively granted equitable relief in patent cases.”<sup>169</sup> During this time, “courts’ preference for granting equitable relief amounted to a great deal of leverage for plaintiffs when negotiating licensing agreements and one-time settlement payments with alleged infringers.”<sup>170</sup> One such case resulted in a windfall judgment: faced with an injunction from the manufacture and sale of Blackberry® devices, defendant Research in Motion, Ltd. was ordered to pay the patent holder NTP more than \$612 million.<sup>171</sup>

The courts’ presumption of equitable relief met its end with the *eBay* decision. The district court initially found eBay to be infringing MercExchange’s business method patent “for an electronic marketplace designed to foster commercial transactions between private individuals through a common trusted entity.”<sup>172</sup>

<sup>162</sup> *Id.* at 286 (citing 35 U.S.C. § 283 (1994)).

<sup>163</sup> 547 U.S. 388 (2006).

<sup>164</sup> HALPERN, NARD & PORT, *supra* note 160, at 286. “After finding infringement, a court generally grants a permanent injunction unless there is a sufficient countervailing reason.” *Id.* (citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246–47 (Fed. Cir. 1989)).

<sup>165</sup> Damon C. Andrews, *Article: Why Patentees Litigate*, 12 COLUM. SCI. & TECH. L. REV. 219, 239 (2011).

<sup>166</sup> *Id.* at 240 (citing Mark A. Lemley, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 798 (2007)). “The threat that a patent holder will obtain an injunction that will force the downstream producer to pull its product from the market can be very powerful. These threats can greatly affect licensing negotiations, especially in cases where the injunction is based on a patent covering one small component of a complex product.” *Id.* n.116

<sup>167</sup> 718 F.2d 1573 (Fed. Cir. 1983).

<sup>168</sup> *eBay*, 547 U.S. 388 (2006).

<sup>169</sup> Andrews, *supra* note 165, at 239. “It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.” *Id.* n.110 (quoting *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989)).

<sup>170</sup> *Id.* at 240 (citing Lily Lim & Sara E. Craven, *Symposium Review: Injunctions Enjoined; Remedies Restructured*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 787, 792 (2009)).

<sup>171</sup> *Id.*

<sup>172</sup> *Id.* (citing *eBay*, 547 U.S. at 390).

While the district court awarded damages, it denied MercExchange's request for a permanent injunction.<sup>173</sup> On appeal, the Federal Circuit granted an injunction, "applying its 'general rule' that 'a permanent injunction will issue once infringement and validity have been adjudged.'"<sup>174</sup> Dissatisfied by the application of a "general rule" to a grant of an injunction, the Supreme Court unanimously reversed the Federal Circuit's injunction, "holding that prevailing patent owners must satisfy a four-factor test before a court can grant injunctive relief."<sup>175</sup> In a notable concurring opinion, Justice Kennedy observed that "firms have shifted from a regime in which patents were used 'as a basis for producing and selling goods' to one in which patents are primarily 'bargaining tool[s] [used] to charge exorbitant fees to companies that seek to buy licenses to practice the patent.'"<sup>176</sup>

In the five years following *eBay*, many commentators predicted patent holders would find it more difficult to obtain injunctions, often alluding to Justice

---

<sup>173</sup> *Id.* (citing *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695 (E.D. Va. 2003)).

<sup>174</sup> *Andrews, supra* note 165, at 241 (citing *MercExchange, L.L.C. v. eBay*, 401 F.3d 1323, 1338 (Fed. Cir. 2005)).

<sup>175</sup> *Id.* (citing *eBay*, 547 U.S. at 391). As a prerequisite for granting an injunction, the four factors set out in *eBay* are as follows:

- (1) [T]hat [the plaintiff] has suffered an irreparable injury;
- (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
- (3) that, considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and
- (4) that the public interest would not be disserved by a permanent injunction.

*eBay*, 547 U.S. at 391. The four *eBay* factors are quite similar to the four factors set out by the 1983 case of *Smith International, Inc. v. Hughes Tool Co.*:

First, whether the party seeking the injunction (the movant) has sufficiently established a reasonable likelihood of success on the merits . . . . Second, whether the movant would suffer irreparable harm if an injunction was not granted . . . . Third, whether a balance of hardships tips in the movant's favor . . . . The final consideration is whether an injunction will impair the public interest.

HALPERN, NARD & PORT, *supra* note 160, at 286–87. The four *eBay* factors are substantially similar to the four factors prescribed by *Smith v. Hughes*, suggesting that the Supreme Court was intentionally guiding lower courts away from application of a general rule.

<sup>176</sup> *Andrews, supra* note 165, at 241 (citing *eBay*, 547 U.S. at 396 (Kennedy, J., concurring)). One commentator applied Kennedy's concurrence to NPEs, observing "Justice Kennedy's concurrence struck a far different tone, focusing in particular on why nonpracticing patentees should be refused injunctions." *Id.* n.125 (quoting Jaideep Venkatesan, *Compulsory Licensing of Nonpracticing Patentees After eBay v. MercExchange*, 14 VA. J.L. & TECH. 26, 32 (2009)).



Kennedy's oracular concurrence.<sup>177</sup> Data suggest injunctions remain widely available: "district courts have awarded permanent injunctions in more than seventy-five percent of the 164 patent cases since eBay."<sup>178</sup> However, several courts focus on whether lawsuit parties are in direct competition: injunctions were "granted in twenty-four of twenty-six cases in which the parties were found to compete directly," and "injunctions were denied in five of nine cases in which the parties were found to not compete directly."<sup>179</sup> Several of the cases denying injunctions "have hinged on the fact that the plaintiff was a non-practicing entity."<sup>180</sup> As courts continue to interpret Kennedy's concurrence to offer injunctive relief primarily to direct competitors, and as additional court decisions explicitly grant or deny injunctive relief based on a party's status as an NPE, eBay will continue to have a chilling effect on the viability of NPE lawsuits.<sup>181</sup>

### 3. Leahy-Smith America Invents Act

The Leahy-Smith America Invents Act was signed into law by President Barack Obama on September 16, 2011.<sup>182</sup> Of the many patent system changes within the law,<sup>183</sup> NPEs will be most affected by the new limitation on joinder of parties.

<sup>177</sup> *Id.* (citing Nina Medlock et al., *The Non-Practicing Patentee's Right to a Permanent Injunction Restraining Patent Infringement: Going Once, Going Twice, Gone?*, 18 No. 9 INTELL. PROP. & TECH. L.J., Sept. 2006, at 1, 2–3; Jaideep Venkatesan, *Compulsory Licensing of Nonpracticing Patentees after eBay v. MercExchange*, 14 VA. J.L. & TECH. 26, 32 (2009)).

<sup>178</sup> *Id.* at 242 (citing *Post-eBay Permanent Injunction Rulings by District Courts to 1-16-2011*, PATSTATS.ORG (Jan. 30, 2011), <http://www.patstats.org/Patstats2.html>). *See also Post-eBay Permanent Injunction Rulings in Patent Cases to 12-4-11*, PATSTATS.ORG (Mar. 5, 2012), [http://www.patstats.org/Injunction\\_rulings\\_post-eBay\\_to\\_12-04-2011.post.xls](http://www.patstats.org/Injunction_rulings_post-eBay_to_12-04-2011.post.xls) (data indicates exactly 150 injunctions granted and 50 denied, current as of Dec. 4, 2011).

<sup>179</sup> *Id.* nn. 130–31. (citing Douglas Ellis et al., *The Economic Implications (and Uncertainties) of Obtaining Permanent Injunctive Relief After eBay v. MercExchange*, 17 FED. CIR. B.J. 437, 442–44 (2008)).

<sup>180</sup> *Id.* at 243 (citing *z4 Techs, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 440 (E.D. Tex. 2006)).

<sup>181</sup> As long as litigation costs predominate legal exposure in defending against patent infringement, the effect of equitable remedies will remain limited. *See* John M. Golden, *SYMPOSIUM: Frontiers of Intellectual Property: Commentary: "Patent Trolls" and Patent Remedies*, 85 TEX. L. REV. 2111, 2130 (2007).

<sup>182</sup> Leahy-Smith America Invents Act, *supra* note 151.

<sup>183</sup> *See, e.g.,* Kenneth E. Levitt, *Patent Reform Becomes Law: The Leahy-Smith America Invents Act*, DORSEY, Sept. 14, 2011, available at [http://www.dorsey.com/eu\\_ip\\_leahysmith\\_91411/](http://www.dorsey.com/eu_ip_leahysmith_91411/). The law "[m]oves the United States from a 'first-to-invent' to a 'first-inventor-to-file' system . . . ; [b]roadens the scope and definitions of prior art; [e]xpands the 'prior user' defense to patent litigation . . . ; and [c]reates new procedures for challenging the validity of patents . . . ." *Id.*

While rule 20 of the Federal Rules of Civil Procedure already allows joinder of parties if the action arises out of the same transaction or occurrence and has a common question of law or fact,<sup>184</sup> the new law prevents defendants from being joined “based solely on allegations that they infringed the patent(s) at issue.”<sup>185</sup> While plaintiffs may still join defendants handling a common product, plaintiffs may not “join defendants selling or distributing different products based only on plaintiffs’ allegations that each of these products separately infringes the patent(s).”<sup>186</sup>

NPEs were afforded several tactical advantages by the previous, more expansive interpretation of permissive joinder. NPEs were able to pay a single filing fee to join “dozens of defendants in the same suit” in a remote, plaintiff-friendly forum.<sup>187</sup> As a result, defendants were forced to choose between expensive litigation in an unfriendly forum and a settlement “on unfavorable terms.”<sup>188</sup> When deciding venue from among the plaintiff’s location and the locations of defendants throughout the country, “courts often conclude that the forum selected by the plaintiff is just as convenient to all parties.”<sup>189</sup> However, for a single defendant, a court may be more likely to choose the defendant’s forum, “where the majority of documents and witnesses relating to the purported infringement should reside.”<sup>190</sup>

#### B. *Analysis of Attack on NPEs*

Any remedy to NPE abuses must overcome three challenges: NPE actions are generally legal,<sup>191</sup> NPEs are inherently difficult to categorize,<sup>192</sup> and NPEs have

<sup>184</sup> FED. R. CIV. P. 20(a)(2)(A–B) (stating that defendants may be joined if “(A) any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences; and (B) any question of law or fact common to all defendants will arise in the action.”).

<sup>185</sup> Robert C. Van Arnem, *The Joinder Provision in the Patent Reform Act: Leveling the Playing Field Against Multi-Defendant NPE Suits*, MARTINDALE.COM, Sept. 20, 2011, available at [http://www.martindale.com/retail-trade/article\\_Williams-Mullen\\_1344570.htm](http://www.martindale.com/retail-trade/article_Williams-Mullen_1344570.htm).

<sup>186</sup> *Id.* Limitations to joinder were modified in the Leahy-Smith America Invents Act: “For purposes of this subsection, accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.” Leahy-Smith America Invents Act, *supra* note 151, sec. 19 (codified as amended at 35 U.S.C. § 299(b)).

<sup>187</sup> Van Arnem, *supra* note 185.

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> *Id.*

<sup>191</sup> See, e.g., Travis Burchart, *Your Good Will Hunting Moment: Arguing for the Non-Practicing Entity or Against the Patent Troll*, LEXISNEXIS PATENT LAW COMMUNITY BLOG (Aug. 22, 2011, 7:57:00 AM),

strong financial motivation to continue abusive practices.<sup>193</sup> These cases and legislation strike at the heart of all three NPE challenges.

Somewhere between permissible legal practices and outright extortion, *Eon-Net* circumscribes a set of corporate and legal circumstances sufficient for Rule 11 sanctions and § 285 costs and fees. While *Eon-Net* significantly constrains the legal activities available to NPEs, unfortunately it stops short of making these “indicia of extortion” alone a sufficient ground for sanctions.

Similarly, *eBay* and the Leahy-Smith America Invents Act define and constrain NPEs, but with limited effect: cases after *eBay* attempt to limit injunctions to directly competing firms,<sup>194</sup> but data show that not all non-competing firms were denied injunctions. The America Invents Act excises the common NPE practice of joining unrelated defendants in a disadvantageous jurisdiction,<sup>195</sup> and while requiring NPEs to file separate cases will increase their cost, it may not overcome the financial motivation of NPEs.<sup>196</sup>

These effects of *Eon-Net*, *eBay*, and the America Invents Act are at variance with a strict constructionist view of the Constitution: because the Framers never distinguished NPEs from practicing or inventing entities, “many scholars argue that the behavior of patent trolls is perfectly within the realm contemplated by Congress throughout the development of U.S. intellectual property law.”<sup>197</sup> Moreover, heraldic proponents of NPEs tout the capital provided to inventors by NPE-purchased patents.<sup>198</sup>

However, when an NPE seeks to extract money through litigation or an *in terrorem* settlement,<sup>199</sup> it neither encourages invention nor adds to the public

---

[http://www.lexisnexis.com/community/patentlaw/blogs/patentlawblog/archive/2011/08/22/your-good-will-hunting-moment\\_3a00\\_arguing-for-the-non\\_2d00\\_practicing-entity-or-against-the-patent-troll.aspx](http://www.lexisnexis.com/community/patentlaw/blogs/patentlawblog/archive/2011/08/22/your-good-will-hunting-moment_3a00_arguing-for-the-non_2d00_practicing-entity-or-against-the-patent-troll.aspx) (“Patents are valuable assets/property and the enforcement of rights is a legitimate activity.”).

<sup>192</sup> See *supra* Part I.A.

<sup>193</sup> See *supra* notes 152 and accompanying text.

<sup>194</sup> See *supra* note 179 and accompanying text. The data suggests injunctions for non-competing firms are less likely following *eBay*, but not strictly excluded.

<sup>195</sup> See *supra* note 190 and accompanying text. As with non-competing firms, this constraint helps define NPEs by their abusive practices.

<sup>196</sup> See *supra* notes 152 and accompanying text.

<sup>197</sup> Robin M. Davis, *Note: Failed Attempts to Dwarf the Patent Trolls: Permanent Injunctions in Patent Infringement Cases Under the Proposed Patent Reform Act of 2005 and eBay v. MercExchange*, 17 CORNELL J.L. & PUB. POL’Y 431, 433 (2008).

<sup>198</sup> See *supra* note 26 and accompanying text.

<sup>199</sup> Cf. *Dura Pharms., Inc. v. Broudo*, 544 U.S. 336, 347 (2005) (quoting *Blue Chip Stamps* to explain how ordinary pleading rules seek to prevent settlement costs from being increased by an *in terrorem* threat of litigation: “But to the extent that it permits a plaintiff with a largely groundless

domain.<sup>200</sup> By reserving judicial resources for non-sanctionable cases<sup>201</sup> and by retaining capital within entities actively engaged in production or research and development, *Eon-Net*, *eBay*, and the America Invents Act move us closer to accomplishing our Constitutional goal of “promot[ing] the Progress of Science and useful Arts . . . .”<sup>202</sup>

## VI. CONCLUSION

*Eon-Net* is one of the most recent examples of possible consequences of egregious conduct by an NPE. To NPEs, *Eon-Net* adds definition to what may be considered “indicia of extortion.” To all legal practitioners, *Eon-Net* adds definition to the set of litigation misconduct sufficient for Rule 11 sanctions and § 285 costs and fees. Similarly, *eBay* and the Leahy-Smith America Invents Act constrain the scope of litigation available to NPEs. Taken together, NPE activity will be hamstrung by limitations to joinder, permanent injunctions, and the threat of Rule 11 sanctions and § 285 costs and fees.

While *Eon-Net* is instructive, its practical effect will remain limited by the strong financial incentives for NPEs. Without a systematic effort to mitigate the strong financial incentive and apparently infrequent consequences to the practices of NPEs, the NPE “patent troll” is far from extinction.

---

claim to simply take up the time of a number of other people, with the right to do so representing an in terrorem increment of the settlement value, rather than a reasonably founded hope that the process will reveal relevant evidence, it is a social cost rather than a benefit.).

<sup>200</sup> See *supra* notes 20–21 and accompanying text.

<sup>201</sup> As a possible alternative, “energy might be better directed to devising alternatives or improvements to today’s costly court proceedings - such as better initial screening of patents by the U.S. Patent and Trademark Office, more effective reexamination proceedings, or a new brand of administrative ‘opposition’ proceedings.” Golden, *supra* note 181, at 2130 (citing Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 961–64 (2004); Jay P. Kesan & Andres A. Gallo, *Why “Bad” Patents Survive in the Market and How Should We Change? - The Private and Social Costs of Patents*, 55 EMORY L.J. 61, 122 (2006)).

<sup>202</sup> U.S. CONST. art. I, § 8, cl. 8.